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Message Text

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E.O. 11652: GDS
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SUBJECT: NEW GOVERNMENT'S ECONOMIC POLICY IN DISARRAY?

1. THE NEW ANDREOTTI GOVERNMENT AS DEMONSTRATED LITTLE MOVEMENT OR POLICY DIRECTION ON THE ECONOMIC FRONT SINCE ITS FORMATIO THREE WEEKS AGO. INDEED, THEECONOMIC IMMOBILISM DATES BACK SEVERAL MONTHS, PRECEDING EVEN THE LONG GOVERNMENT CRISIS THAT BEGAN EARLY IN JANUARY. THE NEW GOVERNMENT REPORTEDLY WAS FORMED ON THE BASIS OF BROAD CONSENSUS AMONG THE PARTIES ON ITS PROGRAM, INCLUDING ECONOMIC POLICY. WHILE THE ABSENCE OF SPECIFIC ACTIONS MAY BE UNDERSTANDABLE AT THIS EARLY STAGE OF A NEW GOVERNMENT, INDICATIONS ARE THAT THE GOVERNMENT IS FAR FROM HAVING A DETAILED, WELL-DEFINED ECONOMIC PACKAGE,AND THAT IT WILL BE SOME TIME BEFORE IT CAN PUT ONE TOGETHER,

2. WE ARE NOW OVER THREE MONTHS INTO THE YEAR AND
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STILL THERE IS NO OFFICIAL BUDGET FOR 1978. AT THE FIRST COUNCIL OF MINISTERS MEETING LAST WEEK, ALL THAT WAS APPROVED ON THE ECONOMIC SIDE WAS THE EXTENSION OF "FISCALIZATION" OF SOCIAL COSTS FOR ANOTHER TWO MONTHS AND RENT CONTROL FOR ANOTHER THREE. IN EXTENDING THE ADMINISTRATIVE CREDIT CONTROL PROGRAM FOR ONLY FOUR MONTHS (TO JULY 31), THE BANK OF ITALY GAVE A CLEAR MESSAGE

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THAT MONETARY AND CREDIT POLICY WOULD HAVE TO CONTINUE
UNCHANGED UNTIL THE FINANCING REQUIREMENTS OF TE PUBLIC
SECTOR AND TOTHER PROPOSED ECONOMIC INITIATIVES WERE
KNOWN. BANK OF ITALY ECONOMISTS ARE KNOWN TO BELIEVE
THAT CONTINUED PROGRESS ON THE ECONOMIC STABILIZATION
RONT DEPENDS CRITICALLY NOT ONLY ON CONTROL ON CONTROL OF THE
PUBLIC DEFICIT BUT ALSO ON THE OUTCOME OF THE LABOR
CONTRACT NEGOTIATIONS THIS AUTUMN, AND WITHOUT GOOD
PROSPECTS FOR STABILITY THEY SEE LITTLE IF ANY SCOPE
FOR STIMULUS OR RECOVERY OF THE ECONOMY. THE BANK IS
ESSENTIALLY FOLLOWING A POLICY OF WAIT-AND-SEE.

3. TWO FACTORS SEEM TO HAVE CONTRIBUTED TO THIS SITUATION.
ONE IS THE TRAUMA SURROUNDING KIDNAPPING OF MORO, WHICH BY
ALL ACCOUNTS HAS RESULTED IN CONCENTRATION ON ISSUE
OF PUBLIC SECURITY AND GENERAL DAMPENING OF GOVERNMENT
CTIVITY AND INITIATIVE. THE OTHER IS ALLEGED
DISAGREEMENT AND PERSONALITY CONFLICTS AMONG NEW
TEAM OF ECONOMIC MINISTERS.
4. IN PRTICULAR,WE UNDERSTAND THAT REASURY
MINISTER PANDOLFI, IN ASSERTING THE TREASURY MINISTER'S
TRADITIONAL ROLE AS THE LEADER AND COORDINATOR OF ECONOMIC
POLICY WITHIN THE GOVERNMENT, HAS BEEN REPORTEDLY
IMPEDED IN HIS EFFORTS BY THE ATTITUDE OF SOME MORE
SENIOR MINISTERS (E.G., DONAT-CATTIN AND MORLINO) WHO
FEEL THEY SHOULD NOT TAKE ORDERS FROM MORE JUNIOR
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DC FIGURE. WHILE WE BELIEVE PANDOLFI WILL EVENTUALLYBE ABLE
TO ASSUME EFFECTIVE CONTROL AS TREASURY MIN-
ISTER, THIS INTERNAL BICKERING IS CAUSING LOSS OF
PRECIOUS TIME.

5. ANOTHER FACTOR IN THIS APPARENT STATE OF DISARRAY
IS THE UNHAPPINESS OF STAMMATI OVERHIS "DEMOTION"
FROM TREASURY TO PUBLIC WORKS. RESPONDING TO A
RECENT INTERVIEW OF CONFINDUSTRIA PRESIDENT GUIDO
CARLI IN WHICH HE HAD COMMENTED FAVORABLY ON PANDOLFI'S
MOVE TO TREASURY, THE NEW MINISTER OF PUBLIC
WORKS, IN A LETTER CARRIED IN THIS WEEKS'S L'ESPRESSO,
DIRECTLY ATTACKS CARLI FOR HAVING SOUGHT HIS REPLACEMNT
AND INDIRECTLY CRITICIZES ANDREOTTI FOR HAVING CAVED
IN TO CONFINDUSTRIA'S DEMANDS. SAMMATI MAINTAINS IN
HIS LETTER THAT CARLI HAD ASKED PRIME MINISTER-DESIGNATE
ANDREOTTI NOT TO RE-APPOINT HIM A TREASURY BECAUSE
HE (STAMMATI) FAVORED STABILITY OF THE LIRA OVER
ECONOMIC GROWTH. THE PRIME MINISTER'S OFFICE HAS
DNIED THE ALLEGATION. THAT THE PRIME MINISTTER'S OFFICE
ISSUED THE DENIAL WAS IN ITSELF AN UNUSAUL THING.

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6. WE REPORT THE ABOVE SO THAT INTERESTED WASHINGTON AGENCIES CAN HAVE A BETTER APPRECIATION OF HOW AND WHY ECONOMIC POLICY IS, OR IS NOT, BEING MADE IN ITALY. WHILE THE ALLEGED DISARRAY AND DISAGREEMENT OF THE NEW ECONOMIC TEAM SHOULD ATTENUATE AS TIME PASSES, PARTICULARLY WHEN THE GOVERNMENT'S ATTENTION TURNS AWAY FROM PUBLIC ORDER AND TO ECONOMIC ISSUES, THE PERFROMANCE TO DATE IS NOT VERY ENCOURAGING.HOLMES

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